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SUBJECT: Audits of Three Major Tajik Concerns May Not Reveal Much

Ref A: 07 Dushanbe 1753
Ref B: 08 Dushanbe 1502
Ref C: 08 Dushanbe 1518
Ref D: 08 Dushanbe 1470

11. (SBU) Summary: The international donor community in Tajikistan is eagerly awaiting the results of audits of three key institutions: the National Bank of Tajikistan, the state electrical company Barki Tojik, and the country's largest industrial concern, the Talco aluminum smelter. The audits were commissioned in part as a response to the National Bank's acknowledgment that it had deliberately misreported its balances to the International Monetary Fund (IMF). While no official results of the audits have yet emerged -- and indeed, most results will never be made public -- there are indications that auditors have been frustrated by poor recordkeeping and restrictions on their scope. The National Bank and Barki Tojik audits are nearly complete, while the Talco audit has not yet begun. End summary.

12. (SBU) At the beginning of this year the National Bank of Tajikistan acknowledged it had consistently and purposefully misreported its balances by failing to inform the International Monetary Fund of over \$500 million in loan guarantees to cotton sector investors (refs A, B, and C). As a result, the IMF demanded early repayment of \$47.8 million in past loans and interest to the National Bank. The Bank has made its first four of six scheduled payments. To be considered for future lending, the IMF required that the National Bank undergo an external audit by a reputable company, and that the key findings be relayed to the IMF. In addition, the IMF pushed for two additional audits, of the national electrical company Barki Tojik and of Tajikistan's largest industrial enterprise, the Tajik Aluminum Company (Talco). Although the latter two companies were not directly linked to the misreporting scandal, IMF resident representative Luc Moers said that the IMF had decided to use its new leverage in the wake of the scandal to demand more openness from key players in the Tajik economy that have long operated under opaque and questionable business practices.

National Bank Audit: Almost Finished

13. (SBU) The National Bank audit, conducted by Ernst and Young, is being finalized in London and is nearly complete. According to an embassy contact with long experience at the Bank, the audit did not go entirely smoothly: auditors were reportedly frustrated with the bank's lack of responsiveness to requests and poor record-keeping. Moers acknowledged that he had heard of some difficulties, but he ascribed them more to a clash of different corporate cultures than a deliberate attempt on the part of the National Bank to impede the audit.

14. (SBU) According to the agreement under which the audit was conducted, the National Bank is obligated to make public by publishing on its website only the "key findings" of the audit. Moers said that although this did not seem to be a problem at the time, in hindsight, he wished the IMF had been more forceful in insisting that the entire audit be made public. Although the auditors had been asked to prepare a section of the audit explicitly entitled "key findings," Moers said he was concerned that the bank might have enough wiggle room to keep even these points off of its website if it would rather not see them publicized. World Bank Qwebsite if it would rather not see them publicized. World Bank Country Manager Chiara Bronchi was less concerned about this, however. She said that since in most cases forensic audits are never made public, the decision to publicize even key findings is an unusual step.

Barki Tojik: Not Very Encouraging

15. (SBU) The audit of Barki Tojik, the state company that manages Tajikistan's electricity grid, is being conducted by BDO Unicom Russia, which Moers described as "a second-tier, but reputable auditing firm." The audit is over, but no results have been released. In all likelihood, Moers said, it would "not be very public," although the World Bank might have some leverage here, since the audit was part of its three-year (2007-09) Energy Loss Recovery Project. He added that so far the "results are not very encouraging." The auditor had actually been "unable to come to a conclusion" about much of Barki Tojik's financial activity -- not because officials are trying to obfuscate, but because so much of the company's records are in "such a mess."

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Talco: Real Activities May Never Be Public

16. (SBU) The audit of Talco has not yet started. The company is just now finalizing its selection of an auditor. Moers said it would be one of the big four accounting companies. Even once the audit is completed, though, it may not reveal much about the operation's balance sheet, since Talco's profits and inputs are managed by an offshore company, Talco Management, based in the British Virgin Islands. According to Moers, although the IMF insisted that the auditors be allowed to "look at third-party arrangements" when going through Talco's books, at the end of the day they had no authority to actually audit the off-shore entities involved in Talco's operations. He was thus somewhat pessimistic about what the audit would ultimately reveal.

17. (SBU) Comment: Of all three audits, the one of Talco has the potential to be the most revealing, because Talco's finances are the most opaque, its revenue the largest, and its operations the most closely linked with the inner circle of leadership. Given the restrictions on the auditors, however, it is unlikely that the results will be very illuminating. Unfortunately, the same may also be true of the National Bank and Barki Tojik audits. Because of their limited scope, difficulties accessing records, or restrictions on their dissemination, these audits may also fail to live up to the hopes the international donor community had that they might peel back the shroud of secrecy concealing the questionable economic activities of Tajikistan's political elite, and reveal the true state of health of Tajikistan's economy. End comment.